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U S DEPOSITORY

WORLD COTTON PROSPECTS

Summary

The price of Middling spot cotton at the 10 markets strengthened at the beginning of the second week of September, although a downward tendency was experienced during the first half of October. The average price in September was 12.05 cents compared with 12.07 in August and 10.48 cents in September of last season. Cotton production in the United States in 1936-37 is estimated at 11,609,000 bales, on the basis of the October 1 report of the Crop Reporting Board. This is an increase of nearly 500,000 bales over the September 1 estimate and is an increase of 9 percent over actual production in 1935-36. The prospective crop, (as estimated in October) plus a world carry-over of approximately 7,000,000 bales, gives an indicated supply of American cotton for 1936-37 of about 18,600,000 bales. This is 9 percent less than average supply in the 10 years 1923-24 to 1932-33, and is 20 percent less than the average supply in the 5 years ended 1935-36.

Total world mill consumption of all kinds of cotton in 1935-36, on the basis of data furnished by the International Federation of Master Cotton Spinners' and Manufacturers' Association, is estimated to have been about 26,800,000 bales, an increase of more than 6 percent over consumption in 1934-35 and nearly 14 percent greater than average consumption in the 10 years ended 1932-33. World consumption of American cotton amounted to between 12,600,000 and 12,700,000 bales and was 12 percent higher than in 1934-35 but 6 percent less than the 10-year average. Most of the increase in world consumption of American cotton in 1935-36, compared with the preceding year,

occurred in the United States. Conditions in general seem to favor a world consumption of cotton in 1936-37 as large as or larger than that of 1935-36. However, the world consumption of American cotton insofar as it is affected by consumption in foreign countries will depend to a considerable degree upon the availability and price of American cotton relative to the supply and price of foreign cotton and upon nationalistic measures affecting cotton consumption in certain countries.

Cotton mill activity in the United States continues to be very high. Cotton consumption in September was nearly 40 percent greater than in the corresponding month in 1935 and was the largest consumption for any September on record.

Cotton consumption was at a high level in foreign countries, as a whole, during August and September. In Europe, the outlook seems to justify an expectation that the consumption of all kinds of cotton in the 1936-37 season will be as large as or larger than in 1935-36. Factors which appear to be favorable to an increased output of cotton textiles and a larger cotton consumption are the prospect for a continued brisk demand from the home market in the British Isles and favorable tariff changes in British export markets, currency devaluation in France, Italy, Switzerland, and the Netherlands, and an improvement in economic conditions in European agricultural areas, especially in the Danubian countries which are large consumers of cotton goods. Factors which may be expected to make consumption less than it otherwise would be are the continued necessity for restricting the importation of cotton and promoting the production of substitute fibers in Germany and Italy, and the probability that the benefits of currency devaluation to some countries will be, in part at least, at the expense of cotton industries in other countries. Most of the increase in the foreign

consumption of American cotton in this last season as compared with 1934-35 was accounted for by higher consumption in the United Kingdom. Increased consumption in some continental countries was offset by decreases in others. The Japanese cotton textile industry was very active during August. Both imports and mill takings of raw cotton were considerably above those in the corresponding month of 1935. However, the consumption of American cotton has declined greatly as compared with a year earlier, its place being taken by increased use of Indian and Brazilian cotton. Chinese mills were considerably more active in August than a year ago, and the relationship between yarn prices and raw cotton prices is such as to make profitable operation at a high percentage of capacity. Imports of cotton continue to be very small, and may go lower as increased quantities of the large Chinese crop move into consumption, although there will be some importation of long and medium staples.

The first estimate of world cotton production in the 1936-37 season is for a crop of about 29,100,000 bales compared with 26,500,000 bales in 1935-36 and the previous record high of 28,417,000 bales in 1926-27, should actual production be approximately equal to the estimate based on present (October) estimates. American production will represent 40 percent and a new record high foreign crop, now estimated at 17,500,000 bales, 60 percent of total world production. In the 10-year period 1923-24 to 1932-33, the United States crop accounted for 56.3 percent of world production, on the average. With world carry-over of foreign cotton on August 1 amounting to approximately 5,200,000 bales, the prospective supply of 22,700,000 bales of foreign cotton for 1936-37 is 2,000,000 bales more than in 1935-36 and 7,300,000 bales, or 47 percent greater than the 10-year average.

The tendency for American cotton to represent a smaller proportion of total world production and consumption implies that changes in the supply of American cotton tend to have a considerably smaller influence upon world cotton prices in general and, to some significant extent, a lesser influence upon the price of American cotton.

The estimate of the new Chinese crop still stands at approximately 3,650,000 bales, the highest output on record. The first estimate of the 1936-37 Egyptian crop is for an outturn of 1,947,000 bales compared with last year's actual output of 1,769,000 bales. If the Egyptian crop turns out to be this large, it will be a record high production. The second estimate of Indian cotton acreage (acreage planted up to October 1) is 5 percent smaller than the revised estimate of acreage planted at the same time last year. The 1936-37 cotton crop in Manchuria is expected to amount to about 92,000 bales which is 95 percent above the 1935-36 crop and 6 percent more than the outturn of 86,500 bales in 1934-35.

Prices

The price of Middling spot cotton at the 10 markets averaged 12.05 cents per pound in September compared with 12.07 cents in August and 10.48 cents in September of last season. The high for the month was 12.33 cents on September 12, and the low was 11.61 cents on September 1. The averages for the weeks ended October 3, 10, and 17, were 12.24, 12.07, and 12.18 cents, respectively. The decline in prices during the first 10 days of October was due, at least in part, to an improvement in the condition of the new crop. Important price strengthening factors in recent weeks have been the very high degree of activity prevailing in the domestic textile industry and the comparatively small world supply of American cotton, even after allowing for any possible improvement in crop prospects. The prices of foreign cottons relative to American are still such as to encourage their consumption at the expense of American. The price of three types of Indian cotton, expressed as a percentage of two types of American, at Liverpool averaged 78.7 in September compared with 77.5 in August and between 76 and 77 in May, June, and July. However, the price of Egyptian Uppers at 109.9 percent of American Middling represented a sharp decline from the average of 118.3 percent in August and was the lowest price for Uppers relative to American since October 1935. The price of Brazilian and Peruvian cotton continue to be low as compared with the price of American.

Stocks and Movements

The October 1 estimate of the Crop Reporting Board for a crop of 11,609,000 bales in 1936-37, plus a world carry-over of about 7,000,000 bales, gives a total prospective supply of American cotton for the season of about 18,600,000 bales. This is 9 percent less than the average supply of 20,436,000 bales in the 10 years ended 1932-33, and it is 20 percent less than the average of 23,296,000 bales from 1931-32 to 1935-36. Since slightly over 3,000,000 bales are government-financed cotton, the total supply of free cotton for the season, with no reduction in stocks of government-financed cotton, would be approximately 15,600,000 bales. The world carry-over of about 7,000,000 bales compares with a carry-over on August 1 last year of 9,009,000 bales and an average of 6,022,000 bales in the 10 years ended 1932-33. The world carry-over of foreign cotton on August 1, 1936 amounted to approximately 5,200,000 bales against 4,800,000 on the corresponding date a year earlier and the 10-year average of 4,200,000 bales. The world supply of all kinds of cotton in 1935-36 totaled about 40,300,000 bales of which 19,600,000 bales were American and 20,700,000 bales foreign cotton. On the basis of conditions in October, the outlook is for a world supply of all growths of cotton in 1936-37 of roughly 41,300,000 bales, an increase of 1,000,000 bales over 1935-36 and of 5,500,000 bales, or 15 percent, over the 10-year average. The expected increase is entirely accounted for by a larger supply of foreign cotton which is 10 percent above 1935-36 and over 47 percent greater than average, while the anticipated supply of American is considerably below both last season and the 10-year average.

Exports

Exports of cotton from the United States were 570,000 bales in September compared with 487,000 in September of last season and an average of 732,000 bales for the 10 years ended 1932-33. Exports from India in August totaled 141,400 bales compared with 103,600 bales in August of last year and an average of 156,300 bales in the 10 years ended 1932-33. Exports from India to Japan amounted to 92,900 bales compared with less than 38,000 last year and the 10-year average of 72,600 bales. Exports were also large to the United Kingdom, amounting to 17,200 bales against 17,800 last year and the 10-year average of 8,700 bales. Shipments of Indian cotton to China and most of the continental European countries, with the exception of Belgium, declined as compared with the corresponding months of 1935. Exports from Egypt during August and September were 45,446 and 94,400 bales, respectively, as compared with 54,156 and 88,356 bales in the corresponding months last season. Average exports in these months during the 10 years ended 1932-33 were 74,326 and 61,288 bales, respectively. Exports to the United Kingdom were about the same as a year earlier but somewhat below the 10-year average. Exports to Japan, amounting to 3,500 bales in August and 14,300 in September, were considerably larger than in 1935-36.

Textile Situation

Consumption

World.- Total world mill consumption of all kinds of cotton, on the basis of data furnished by the International Federation of Master Cotton Spinners' and Manufacturers' Association, is estimated to have been about 26,800,000 bales in 1935-36, an increase of more than 6 percent over 1934-35 and of nearly 14 percent over average consumption in the 10 years ended 1932-33. World consumption of American cotton amounted to between 12,600,000 and 12,700,000 bales and was 12 percent greater than in 1934-35, but 6 percent less than the 10-year average. Most of this increase in the world consumption of American cotton in 1935-36 compared with the previous year, occurred in the United States, the increased utilization in foreign countries amounting to only 300,000 to 400,000 bales. In foreign countries mill consumption of all cotton of nearly 20,500,000 bales in 1935-36 was 3 percent above 1934-35 and 13 percent above the 10-year average, while the consumption of American cotton was 6 percent greater than in 1934-35 but between 14 and 15 percent less than in the 10 years ended 1932-33. World cotton mill consumption reached the record breaking level of 1935-36 in spite of the competition of rayon and other competing fibers, continued widespread unemployment, and trade barriers and a shortage of foreign exchange in certain important cotton consuming countries. Among factors which seem likely to have accounted for the large consumption of cotton throughout the world are a rather high level of industrial production, which in the leading countries of the world is now mostly up to the pre-depression level; new uses for cotton goods; low cotton prices, which tend to stimulate cotton consumption, especially in foreign countries where the demand for cotton is more elastic; the production of increased quantities and better qualities of cotton by foreign cotton growing countries; the comparative freedom of raw cotton from tariffs and quotas which directly affect its movement; and the great expansion of textile manufacturing in the Orient with resulting lowered prices to consumers. It is reasonable to expect world mill consumption, in this present season, to be as large as or even larger than in 1935-36 unless the growth of world production and trade, which has been under way since the summer of 1932, and the probable benefits of recent currency devaluations, and beginnings of trade barrier reductions are checked by war.

It should be remembered, however, that the extent to which an increased world demand for cotton goods and a larger consumption of raw cotton result in an increased demand for and a larger consumption of American cotton, depends, to an important degree, upon the availability and the price of American cotton relative to the availability and the price of other growths of cotton. During the last 2 or 3 years, the situation has been such as to encourage the production and consumption of foreign cotton at the expense of American. In addition, trade barriers, shortage of foreign exchange, and increased production of substitute fibers have affected adversely the consumption of cotton, especially American, in two important countries, Germany and Italy, whose textile industries consume large quantities of American cotton. As pointed out above, the consumption of American cotton in foreign countries in 1935-36, while above the very low level of 1934-35, was considerably below the average in the 10 years ended 1932-33. On the other hand, consumption of foreign cotton in the world, outside the United States, (nearly all foreign cotton is consumed in foreign countries) amounted to 13,993,000 bales or slightly more than

the utilization of 13,774,000 bales in 1934-35 and was 43 percent greater than the average consumption of 9,602,000 bales in the 10-year period 1923-24 to 1932-33. Outside the United States the consumption of foreign cotton exceeded that of American by over 7,500,000 bales in 1935-36, compared with an average of 2,200,000 bales in the 10 years ended 1932-33.

In the world as a whole, American cotton represented 47.3 percent of total consumption of all growths in 1935-36 compared with 44.9 in 1934-35 and the 10-year average of 57.3. In foreign countries in 1935-36 a smaller increase took place in the relative importance of American cotton compared with the preceding year, and a sharper decline, compared with the 10-year average than in the world as a whole, the share of American in total foreign mill consumption being 31.6, 30.7, and 43.5 percent, respectively, in the 3 periods.

United States.- Domestic mill activity continues to be very high. Cotton consumption in September amounted to 630,000 bales, an increase of nearly 40 percent over consumption in the corresponding month of 1935 and the highest consumption for any September on record. Trade reports indicate that sales of both finished and unfinished goods during the last month have been equal to, or in excess of current production. The prices of goods have tended to rise and mill margins have widened on such standard lines as print cloths and sheetings. The very high degree of activity which characterizes the cotton textile industry in the United States, in the opinion of the trade, is due to two main causes. In the first place, it has been estimated by the trade that considerable part of the gain in cotton textile consumption this year over a year ago is due to a significant increase in the industrial demand for cotton textiles. In the second place, there has been a greatly increased demand from the retail trade as a result of increased sales and the necessity for replenishing stocks. In the early months of the present calendar year, wholesalers, cutters, and retailers are reported to have restricted their purchases because of uncertainties as to the future course of prices and the general business situation. However, during the same period, consumers' incomes tended to increase and retail sales steadily mounted with a resulting rapid depletion of stocks. By late spring, a replenishment of stocks was necessary, and in the meantime, consumer buying continued to increase. As the general outlook tended to improve, dealers became less afraid to build up adequate commitments and inventories. The net result of these factors has been to create a very brisk demand for the output of mills and a consequent high level of mill activity and cotton consumption.

The European Cotton Outlook for 1936-37 1/

European mill consumption of raw cotton has recovered to a large extent from the severe decline which took place in 1934-35 principally as the result of restriction in the leading continental countries, Germany, France, and Italy, has been, to a large extent, recovered in 1935-36. This improvement, which hardly seemed likely a year ago, has been due to a remarkable upturn in French and Czechoslovakian consumption, to a

1/Prepared largely from a report from Lloyd V. Steere, Agricultural Attache, at Berlin, with the collaboration of Dr. Hans Richter, Economic Assistant. Report dated September 28, 1936.

substantial increase in Great Britain, further large gains in Belgium and Austria, and fair increases in some other minor European countries. It has taken place, moreover, despite severe recession in cotton consumption incident to the abnormal conditions in Italy and Spain, and notwithstanding little change in mill consumption in Germany.

The increase in European mill consumption of all raw cotton in 1935-36 compared with 1934-35 amounted to about 450,000 bales of 478 pounds net, or approximately 6 percent. Utilization of American cotton alone increased between 300,000 and 400,000 bales, practically all of the increase occurring in Great Britain, with the Continent taking only a little more than the previous season. There was a small increase in European mill consumption of Egyptian cotton, because of larger takings by the Continent. Increased utilization of Indian cotton in Great Britain, was more than offset by declines on the Continent; on the other hand, British spinners used less of sundries growths, while continental spinners consumed more which raised total European use of sundries to a new high level.

General outlook for 1936-37. Barring unusual developments, 1936-37 mill consumption of raw cotton should not differ greatly from the improved 1935-36 level, and might rise above it.

Consumer demand for cotton goods promises to continue of good volume in a number of countries, including the United Kingdom, Belgium, the Scandinavian States, and Austria. Further gains may also be made in France, provided that the expansionist policy of the present government is successful, through currency readjustment and by other means, in promoting and consolidating general economic recovery. The Danubian countries, with good harvests and higher agricultural prices, give promise of increased textile requirements this year.

Elsewhere the outlook is less encouraging. Italy's much curtailed consumption may pick up when cheaper goods begin to replace present high priced stocks, but the immediate consumer outlook there is not too favorable. German ultimate consumption of cotton as goods is not likely to be sustained at present levels. In certain other countries, where consumer buying may increase moderately if adjustments in general economic policy are made, stocks of goods have been accumulating in the past season for speculative and investment reasons; this is particularly true of Czechoslovakia and Poland. The existence of such stocks may cause any eventual increase in consumer buying to have little influence on the volume of current mill consumption of raw material.

The export outlook for cotton goods for the European manufacturing countries seems, on the whole, to hold out promise of some improvement during 1936-37. Encouragement is to be found chiefly in the fact that, this year for the first time in several years, there seems likely to be a certain revival in international trade in several important agricultural products, or at least in the income from such trade because of higher prices. This is particularly true of grains, but extends also to livestock products, including wool, to cotton, and to oilseeds. The Danube area, which is an important textile consumer, is one area that should benefit noticeably from these developments, but various non-European areas should also profit, with corresponding increase in their ability to buy goods, including cotton goods, from their European customers.

A second favorable factor is the recent general readjustment in currency relationships. While temporarily disturbing, this seems certain to have generally beneficial effects upon international trade, including that in textiles, For some countries, particularly Great Britain, recent tariff developments in overseas markets are such as to give considerable confidence in a certain pickup in textile exports.

While the cotton goods export outlook thus seems generally to be a little more encouraging, some cotton goods exporting countries may not be able to benefit from the situation. Thus, Austria and Czechoslovakia, which have benefited greatly from Italian withdrawal from the Danubian and Balkan markets, may find Italy able to regain a good share of her former business, and be forced to curtail output somewhat, even though Danubian demand may improve this year. Increased wage and other costs may no longer impair France's competitive ability in export markets, because of franc devaluation. Other countries may also be affected by their own currency policies, or those of other countries, in the event of widespread monetary readjustment. There are thus a large number of uncertainties in the situation, as between countries, and from a competitive standpoint, yet, at the same time, some reason to anticipate a certain pick-up in cotton goods exports in the current cotton year.

Artificial and substitute spinning materials will continue in 1936-37, to play a role in the replacement of raw cotton in Germany and Italy, but will be of no great significance elsewhere.

Mill consumption.- All these considerations taken together point to the possibility of some further improvement in mill consumption of raw cotton in Great Britain and perhaps some minor European countries; to maintenance of the favorable levels attained in Belgium and in France, particularly since the latter has just revalued the franc; to possibly some pick-up in Italy and certainly in Switzerland which has also adjusted her currency; to only small recession from the enhanced levels of 1935-36 mill consumption in Austria, Czechoslovakia and Poland; and to a decline in Germany. The result of such developments would probably be a European mill consumption in 1936-37, not greatly different from 1935-36, and possibly somewhat higher.

American cotton.- Consumption of American cotton by European spinners has increased from 51 percent of total cotton consumption in 1934-35 to 53 percent in 1935-36, but has remained low in comparison with the 67 and 71 percent recorded for 1933-34 and 1932-33, respectively. The small relative gain in the consumption of American cotton has been entirely in the United Kingdom, while the Continent as a whole has further decreased its relative consumption of American and, excluding Germany and Italy has barely maintained it. This is to be attributed to price-relationships which, while favorable in the first part of the campaign, were unfavorable in the latter part to the utilization of American cotton compared with competitive growths. The new marketing season for American cotton began with the advantage of relatively higher prices prevailing for Egyptian and Sudan staples, but Egyptian Uppers weakened greatly in September, and Indian, Brazilian and other growths are in fairly good supply at prices favorable to their use. If these price relationships persist, it may be concluded that the relative consumption of American cotton in Europe during 1936-37 will not differ significantly from that in 1935-36, possible gains in England probably being offset by developments on the Continent where Germany, under a new trade agreement with Brazil, will again be able to avail herself of large raw cotton supplies from that country.

Raw cotton imports.- As a result of developments that were directly opposite in the previous season, as well as of a tendency to refill depleted stocks, European net imports of raw cotton destined for spinning during 1935-36 have exceeded mill consumption by a considerable margin. Thus, while mill consumption in Europe rose about 6 percent in 1935-36 over 1934-35, net imports of raw cotton increased almost 20 percent. They amounted to fully 9,000,000 bales, as compared with 7,545,000 bales in 1934-35, 9,531,000 in 1933-34, and 8,826,000 bales in 1932-33. 2/

Stocks of raw cotton in ports and mills.- The refilling of European port and mill stocks during 1935-36 has not been important. Mill stocks remained unchanged. Port stocks on the Continent outside of France also remained largely unchanged; in Great Britain and France they showed some increase. European port stocks may still be considered as very low, and mill stocks as moderate.

European port and mill stocks of raw cotton

(1,000 bales of 478 lbs. net)

Item	Aug. 1, 1931	Aug. 1, 1932	Aug. 1, 1933	Aug. 1, 1934	Aug. 1, 1935	Aug. 1, 1936
Port stocks	1,773	1,476	1,771	1,751	1,004	1,211
Mill stocks	1,181	1,146	1,342	1,398	1,240	1,278
Total	2,954	2,622	3,113	3,149	2,244	2,489

Brief Notes on Individual Countries

Great Britain.- General industrial and commercial activity in the British Isles continues at high levels, and favorable developments in business conditions during the next year seem to be in prospect. The likelihood of good demand at home and rather favorable tariff developments recently in British overseas markets thus give no indication that a lower rate of raw cotton consumption is to be expected in the coming year. If there are no serious European political disturbances, moderate further improvement even seems possible.

Germany.- There appears to be considerable probability that the consumption of raw cotton in Germany in 1936-37, both by mills and for other purposes, will be lower than in 1935-36, though no abrupt decline is to be expected. There is certain to be growing replacement of raw cotton by artificial fiber, the admixture of which to raw cotton in the production of ordinary counts of cotton yarn has been raised from the 8 percent required in the first half of 1936 to 16 percent beginning with August. In fact, a recent speech of a German textile leader indicated that rayon staple fiber production in Germany amounted to 7,200 tons in 1934, to 15,600 tons in 1935, and is expected to reach 45,000 tons in 1936 and 70,000 in 1937. The 16 percent admixture referred to above would mean approximately 150,000 bales of staple fiber per annum.

2/ Figures calculated from International Institute of Agriculture data which include raw cotton as well as some cotton waste. The figures contain an appreciable share of raw material used for other than spinning purposes.

The raw cotton supply up to the middle of this year has been relatively satisfactory, despite a considerable reduction in the latter part of the season and an increase in the percentage of unsatisfactory qualities. Reduction in available stocks has gone far in the past 2 years, however, and there now appears to be practically no margin left for further consumption from supplies on hand. Tension in the supply situation is also indicated by various ordinances issued in recent months, such as the placing of rayon staple fiber purchases and deliveries under the rationing system of the Supervisory Offices, and the subjection to Supervisory Office control of yarn deliveries even from the spinning department to the weaving department of one and the same enterprise. On the other hand, a new trade agreement concluded with Brazil this summer will facilitate imports of large supplies of raw cotton from the abundant 1936 Brazilian crop.

A considerable increase in German flax production this year is also expected to aid in the gradual replacement of raw cotton by other spinning materials.

Czechoslovakia.- A remarkable increase occurred in cotton mill activity in Czechoslovakia in 1935-36, according to the cotton consumption figures recently released. This fact, however, has been concealed by almost continuous complaints and the issuance of unfavorable reports by the industry. The enhanced output has been partly based on increased exportation of cotton yarns to Rumania and Yugoslavia, incident to Italy's withdrawal from those markets, but it also appears that cotton goods have accumulated in the country during 1935-36 to a considerable extent. Mill consumption of raw cotton in 1936-37, therefore, may not come up fully to the enhanced level of 1935-36, although demand from Danubian countries may prove larger than anticipated. The recent introduction of currency control and import license control, even for industrial raw materials, is already thought to have cut into Czechoslovakian cotton mill activity.

Austria.- In the spring of 1936 Austrian cotton mill activity, which had risen to extraordinary levels under the stimulus of huge cotton yarn exports to southeastern Europe, notably Rumania, experienced a sharp curtailment when export business to Rumania came to a standstill. Recent reports have indicated some improvement in the export situation, but it seems unlikely that the new season will come up to the figures for the 1935-36 season, when record consumption occurred notwithstanding the fact that the number of spindles in place was only about 75 percent of the average number in 1926-27 and 1927-28.

France.-A remarkable upturn in cotton mill consumption in France during 1935-36 was brought about by the abandonment of deflationary in favor of expansionistic policies, and the present situation, despite recent marked increases in costs of production, is viewed optimistically. Moreover, now that devaluation has taken place, France stands a good chance of maintaining and even accelerating economic recovery, with corresponding improvement in the rate of cotton mill activity.

Italy.-3/ A greatly reduced mill consumption of raw cotton in Italy in 1935-36 has resulted from official restriction of imports, and a general decline in cotton goods consumption and exports. For a number of months, only Italian exporters of cotton goods were permitted to import raw cotton, with the result that imports dropped heavily. Large stocks of finished cotton goods carried over from last year made such a decline possible without a drastic reduction in consumers' supplies.

A recent decision of the authorities is expected to make for improved purchases of cotton from abroad, since, beginning with October 1, manufacturers of cotton goods for the domestic market will also be granted a small import quota for raw cotton, while exporters, it is understood, will be allowed to import cotton with the entire proceeds of cotton goods exports. Dealers estimate that, as a result of these measures, imports of raw cotton during the last quarter of 1936 will increase to between 60 and 65 percent of normal requirements.

It is expected that a new decree regulating the mixture of substitute fibers and colonial cotton with raw cotton from abroad in the manufacture of cotton yarn (except for export purposes) will raise the percentage of admixture to 15 or 20 percent compared with the 5 percent decreed on March 9, 1936.

Russia - the outlook for 1936-37.- Owing to the increased production of domestic cotton, Russia's dependence upon foreign supplies of raw cotton in recent years has dwindled. By 1933 imports had dropped to but a small fraction of the total consumption of raw cotton by the Soviet cotton textile industry. Some pick-up of imports took place in 1935 to offset the disappointing outturn of the domestic crop, but apparently it is not planned to continue importation of raw cotton on even the moderate 1935 scale, and 1936 imports are expected to show a considerable decline compared with the preceding year. Thus, barring very unfavorable climatic developments, Russian cotton textile production may be taken to depend almost exclusively upon domestically produced cotton, notwithstanding the fact that there are great possibilities for an expansion of cotton textile production beyond the limits set by the domestic crop.

Japan.-4/ August was an active month for merchants, spinners, and weavers in the Japanese cotton textile industry. Cloth exports declined slightly during the month as compared with a year earlier, but increased domestic consumption of cotton goods fully compensated for the small decline in the export trade. In recent months, the Japanese have shown a tendency to shift away from American cotton and to use larger quantities of foreign growths. This tendency was very evident in August both in imports and mill takings. Imports of all kinds of cotton during the month amounted to 266,658 bales, an increase of 51 percent compared with August 1935. However, imports of American cotton amounted to only 54,800 bales, or 11 percent less than in the corresponding month a year earlier. On the other hand, imports of Indian cotton were over 146,000 bales, or 48 percent

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3/ Information received from Consul Lester L. Schnare, of Milan.
4/ Prepared largely from a cable from Agricultural Commissioner O. L. Dawson, Shanghai, under date of October 15, 1936.

greater than a year earlier, and imports of miscellaneous growths, chiefly Brazilian, totaled 54,570 bales, or more than eight times their volume in August 1935. Imports in the 12 months ended August 1936 show a less striking, although significant, change from the same period a year earlier. Total imports of all kinds of cotton in the 12 months ended August 1936 amounted to 3,737,000 bales, or 10 percent more than in the corresponding period a year earlier. However, imports of American cotton of 1,553,000 bales represent a decline of 4 percent; imports of Egyptian of 113,700, a decrease of 29 percent; and imports of Indian of 1,661,000 bales, an increase of 14 percent as compared with the preceding 12 months. Receipts of Chinese cotton of 145,500 bales were 2½ times their volume in the preceding 12-month period and imports of miscellaneous growths of 263,000 bales were over three times as great as in the preceding period. Mill takings show a similar change in direction. Total takings of all kinds of cotton in the 12 months ended August were only slightly larger than in the corresponding period a year earlier, but total mill takings in the month of August were 17 percent greater than in August a year earlier. American cotton declined by 40 percent while mill takings of Indian increased nearly 50 percent, and miscellaneous growths - including Chinese- were four times as great . The recent sharp decline in the importance of American cotton in Japanese mill consumption probably can be attributed to three main causes. First, the high price of American cotton relative to other growths during the last 2 or 3 years. The decline in the consumption of American cotton at the present time, probably is a reflection of the operation of forces which have required some little time to make their effects visible. While the price of American cotton is now no higher relative to that of foreign growths than it has been during many months in the last few years when Japan has imported much larger quantities of American cotton, it is only at the present time that alterations in spindles to meet changes in mixing formulae and completion of transportation and merchandising arrangements for securing increased amounts of Indian, Brazilian, African, and Peruvian cotton have made themselves fully felt in a decreased use of American cotton. In the second place, it is reported that the added tariff duties imposed on textiles entering the United States are resented by the Japanese textile industry. The large spinners who purchase practically all of the raw cotton consumed in Japan are also the manufacturers of most of the broad-weave cloth which enters into the export trade. While no boycott has been declared against American cotton, it is believed that sentiment against the United States because of its tariff increase has tended to reduce the consumption of American cotton. A third factor is the increased availability of Brazilian cotton and its general adaptability to most of the uses to which American cotton is put. Imports of American cotton in August were exceeded for the first time by imports of Brazilian. If, as seems likely, these are the causes of the recent sharp decline in the use of American cotton by the Japanese cotton textile industry, they are factors which are permanent or can be reversed only by very drastic changes in the conditions that have brought them about.

China.- 5/ The position of the Chinese cotton textile industry is considerably more favorable than a year ago. It is estimated that Chinese mills were operating at about 80 percent of capacity in August compared with 65 percent a year earlier. Japanese mills are believed to be operating

5/ Prepared largely from a cable from Agricultural Commissioner O. L. Dawson, Shanghai, under date of October 15, 1936.

at close to 100 percent. Some of the Chinese mills which have been more or less inactive during the latter part of this past season are resuming operations in view of the improved demand for yarn and the prospect of lower raw cotton prices. Yarn prices advanced significantly during the month and were proportionately greater than increases in raw cotton prices, thus improving the relationship between yarn prices and cotton prices which is reported to be at the most favorable level for the last few years. Cotton prices during the month advanced slightly in spite of the bumper Chinese crop. This unexpected strength in prices is attributed to a slow movement of cotton from the interior owing to a lack of transportation facilities, and also because farmers are holding cotton in anticipation of higher prices. However, spinners seem to believe that present prices are too high, and they are tending to delay making large purchasesuntil the movement of the crop becomes heavier, when, they anticipate, prices will decline. Imports of cotton continue to be very small. At the present time, only some 2,000 bales of Indian, 16,000 of Brazilian, and 1,000 bales of American are due to arrive at Shanghai according to trade reports. Deliveries to Shanghai mills in September totaled 49,000 bales, of which 39,000 were Chinese cotton, 1,000 American, 4,000 Indian, and 5,000 bales other growths. In the 12 months ended September, deliveries of all kinds of cotton amounted to 1,315,000 bales, an increase of 37 percent over deliveries in the corresponding months a year earlier. Most of the increase was accounted for by the fact that deliveries of Chinese cotton nearly doubled from 686,000 to 1,136,000 bales, while American declined from 148,000 to 55,000 bales, and Indian from 95,000 to 78,000 bales. Deliveries of Egyptian cotton remained about the same at 25,000 bales. All other growths, while still relatively small, trebled, amounting to 21,000 bales compared with 7,000 a year earlier.

Production, Acreage, and Crop Conditions

World.- Total world production of cotton in the 1935-36 season is placed at 26,500,000 bales of approximately 478 pounds net. Of this total, about 10,600,000 bales represented production in the United States and 15,900,000 were produced in foreign countries. This compares with a United States and a foreign production in 1934-35 of 9,600,000 and 14,200,000 bales, respectively. Of the increase of about 2,700,000 bales in total world output in 1935-36 as compared with 1934-35, American cotton accounted for about 1,000,000 and foreign for about 1,700,000 bales. In the 10 years ended 1932-33, cotton production in the United States averaged 14,400,000 bales or 3,200,000 more than the average production of foreign cotton in the same period, whereas in 1934-35 and 1935-36 foreign production has exceeded American by 4,600,000 and 5,300,000 bales, respectively. With the 1936-37 crop in the United States estimated at 11,600,000 bales, on the basis of October 1 conditions, and the foreign crop preliminarily estimated at a new high of 17,500,000 bales, prospective total world production is placed at about 29,100,000 bales, somewhat higher than the previous record high output in 1926-27. However, should actual production this season be approximately the same as present conditions indicate, the crop in the United States will represent 40 percent of the total world production compared with 63.3 in 1926-27 and an average of 56.2 percent in the 10 years ended 1932-33.

United States.- The October 1 report of the Crop Reporting Board places the 1936-37 crop at 11,609,000 bales. This is an increase of nearly 500,000 bales over the September 1 estimate and is an increase of 9 percent over actual production in 1935-36. The indicated yield per acre is 186.9 pounds or about the same as last year and 17 pounds more than the average yield in the 10 years ended 1932-33. The condition of the crop improved during the month in all of the important cotton growing states except Texas and Oklahoma.

China.-The 1936-37 Chinese crop is still estimated at about 3,650,000 bales, although it is believed that this figure may be revised upward moderately. So far the weather has been very favorable for the maturing and the picking of the largest Chinese cotton crop on record. It is reported that picking is well advanced and cotton is arriving in the important market centers in considerable volume although not so rapidly as had been expected, apparently because of a shortage of transportation facilities and the tendency for some farmers to hold their cotton for better prices. It is believed that the production of the better staples will not show so large an increase over last year as will the crop as a whole because dry, summer weather has restricted plant development in northern Honan province. It is also reported that the crop of short, rough cotton which is produced mainly in North China is only a little larger than last year. Since stocks of the longer staple Chinese cottons are very low and the increase in their production promises to be smaller than was originally anticipated, it is probable that imports of medium staple cotton during the next few months will be larger than the trade has previously thought necessary.

India.-The second official estimate of the Indian cotton acreage gives the area planted up to October 1 as 20,989,000 acres, a decrease of 5 percent from the 22,114,000 acres planted up to October 1 of last season. On the average, in the 10 years ended 1932-33, 82 percent of the total cotton area has been planted by October 1. If this average relationship should prevail in the present season, the total cotton area of India would be 25,474,000 acres, or only slightly above last season's final estimate of 25,138,000 acres. It should be remembered, however, that this is only a very rough method of estimating the final acreage for the season, since the proportion of the total acreage planted up to any given date varies considerably from year to year. An average of forecasts made by five or six of the leading firms of cotton merchants in India results in an estimate of Indian production about 14 percent greater than the 1935-36 crop of 4,793,000 bales. However, in view of the somewhat smaller acreage planted on October 1 than on the corresponding date last year the prospective Indian crop for 1936-37 is placed conservatively at 5,000,000 bales of 478 pounds net.

Egypt.-The first estimate of Egyptian production in the 1936-37 season is for a crop of 1,947,000 bales of 478 pounds net, compared with last year's output of 1,769,000 bales. If actual production turns out to be as large as this first estimate, it will be a record high, the largest production in any previous year being 1,777,000 bales in 1933-34. Ginnings up to October 1 totaled 377,000 bales, an increase of 83 percent above ginnings to the same date last year. Most of this increase in ginnings is accounted for by

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varieties other than Sakellaridis. Earlier in the season, estimates of acreage planted by varieties indicated that this season would see a further decline in the production of Sakellaridis and an increase in the area and output of other varieties, part of the increase in other varieties to be represented by a larger output of extra-long staple, roughly comparable in quality to Sakellaridis, but the larger part of the increase to be made up of moderately long staples of the Uppers variety. This being the case, this increase in Egyptian cotton production will mean a more than proportionate increase in the output of foreign cotton which is directly competitive in grade and staple with the very best qualities of American Upland.

Manchuria.- The first estimate of the Manchurian cotton crop for 1936-37 is for an output of about 92,000 bales, a considerable increase over last year's crop of 47,000 bales and 6 percent more than the production of 86,471 bales in 1934-35. On the whole, climatic conditions in Manchuria are not very favorable to cotton production and unseasonable rains, drought, and frosts often cause serious crop losses.

Russia.- All Soviet press reports speak of a further increase in domestic cotton production in 1936, despite climatic conditions only moderately favorable during the sowing and ripening periods. Belief is generally professed that this year's plan, providing for a cotton crop of about 2,760,000 bales of 478 pounds will be achieved and will even be exceeded. The attainment of this figure would mean an increase compared with the officially reported estimate of 2,430,000 bales for 1935 6/. Better seed, earlier sowing dates, improved cultivation and fertilization are indicated to be the chief factors making for higher yields.

The so-called "new non-irrigated cotton regions" (in European Russia), which account for about 20 percent of the total acreage in cotton, are reported to be expecting a cotton crop considerably larger than last year, partly as the result of a further increase in acreage but chiefly because of higher yields. These "new regions" have been harvesting very low yields.

It remains to be seen how all these factors have affected the yield, and whether a crop as large as called for by the plan will be harvested. Some further increase in yields is probable, but hardly one of the extent indicated in the early reports. An unfavorable factor in the situation is the reported slow progress of harvesting, with a tendency to wait until all the crop has ripened before beginning work, which may well result in deterioration and loss of high quality cotton.

6/ This figure, however, does not represent the quantity of cotton actually available for consumption in view of the fact that considerable losses in storage occurred during the past season from the delivery of a part of the crop unripe and in very moist condition. The production available for consumption in 1935-36 is believed to have been about 2,250,000 bales.